



How Health Can Affect Your Wealth in Retirement

PREVIEW



Contents

Introduction	3
How Can Health Affect Your Wealth?	3
Health-Care Costs as a Percentage of Income	3
How Much Is Enough?	4
Five Factors That Can Affect Health-Care Costs	5
1. Overall Health.	5
2. Your Age	5
3. Inflation.	6
4. Gender.	6
5. Where You Live.	7
Primary Resources Available	7
Medicare	7
Understand Your Medicare Options	8
Risk of Needing Long-Term Care	9
Annual Cost of Nursing-Home Care	9
Medicaid Basics	10
Medicaid Eligibility	10
Steps to Help Manage Out-of-Pocket Costs	11
Step 1: Maximize Your Savings	11
Step 2: Take Advantage of HSAs	14
Step 3: Consider Additional Resources	15
Step 4: Live Healthfully	15
Figuring Out Your Net Cash Flow	18
Figuring Out Your Net Worth	19
What to Bring	back cover

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Introduction

How Can Health Affect Your Wealth?

When planning for retirement, you will need to consider a number of expenses, and one of the most important involves health-related costs. Along the way, you may encounter a few truths and falsehoods about health care and retirement.



Does good health mean lower health-care costs in retirement?

Not necessarily.

Although good health generally means fewer trips to the doctor and fewer treatments and medications during retirement, it can also lead to a much longer life span — which means you'll be paying for all your expenses, including health care, for a relatively long time.



Will Medicare cover all your health-care expenses in retirement?

No.

People often underestimate the cost of health care in retirement — even with Medicare. Medicare generally covers only about 60 percent of the cost of health-care services for beneficiaries age 65 and older. Out-of-pocket costs may include premiums, deductibles, copays, and coinsurance. Your costs will vary depending on the coverage you choose and the medical services you need.

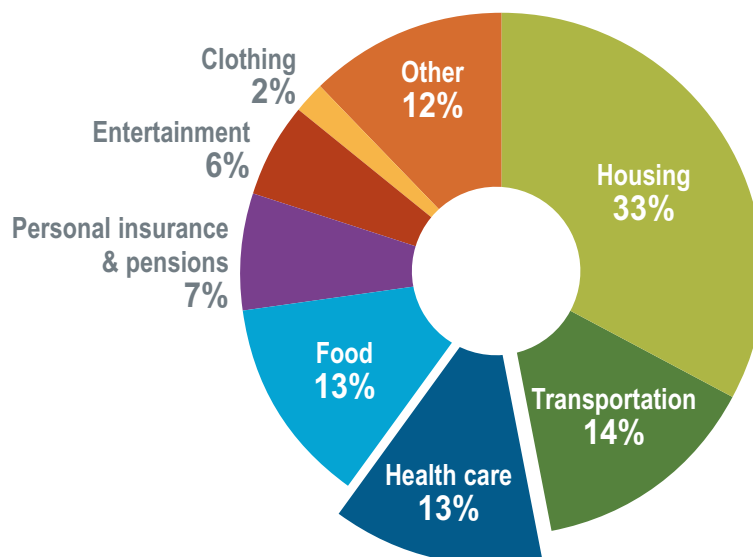
Source: Medicare.gov

Medicare does not pay for many health-related items such as eyeglasses, hearing aids, and dental care, which can take a big bite out of your savings.

Health-Care Costs as a Percentage of Income

According to the Bureau of Labor Statistics, health care and food tied as the third highest expense categories for Americans age 65 and older in 2018. This age group spent an average of \$6,800 on health-care expenses, and the majority of this went to paying costs associated with health insurance (including, presumably, Medicare).

Source: U.S. Bureau of Labor Statistics, 2019 (2018 data)



Introduction



How many people have tried to calculate how much they might need to cover retirement health-care costs?

Only about 30% of people ages 45 and older have tried to figure this out (including those who are already retired).

Source: Employee Benefit Research Institute, 2019

How Much Is Enough?

According to the Employee Benefit Research Institute, a 65-year-old married couple in fairly good health who were receiving comprehensive Medicare and Medigap benefits in 2019 could need \$301,000 to have a good chance of covering just their premiums and prescription drug costs in retirement.

The following table estimates how much you might need to cover health care in retirement based on your current age, a hypothetical investment rate of return during retirement, and a retirement age of 65.

Current age	Assumed rate of return on investments		
	2%	4%	6%
45	\$538,638	\$412,981	\$324,842
50	\$442,722	\$339,440	\$266,997
55	\$363,885	\$278,995	\$219,452
60	\$299,087	\$229,314	\$180,373
65	\$245,828	\$188,479	\$148,254

The average out-of-pocket health-care costs used in this table are based on 2018 data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Health-care costs include payments for health insurance, medical services, drugs, and medical supplies. The average out-of-pocket cost includes essentially all out-of-pocket costs, including premiums, deductibles, copays, and costs not covered by Medicare or other insurance.

Costs are adjusted for 4% inflation in years after 2018 and projected out to age 90. Annual health-care costs are assumed to occur ratably at the end of each month. Figures do not include the effects of federal or state taxes, or any investment fees or expenses.

This is hypothetical example used for illustrative purposes only and does not reflect the performance of any specific investment or portfolio. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Five Factors That Can Affect Health-Care Costs

Many factors can affect your overall health-care costs in retirement. Here are five primary considerations:

- Overall health
- Age
- Inflation
- Gender
- Where you live

1. Overall Health

Health-care costs can vary considerably based on your personal situation. According to the Centers for Disease Control and Prevention, the leading causes of death and disability — including heart disease, diabetes, and cancer — are also among the nation's leading drivers of health-care costs.

You also need to consider the cost of medications and treatments associated with other conditions, which often become more common with age. Some of these might include arthritis, high blood pressure, high cholesterol, depression, and osteoporosis.

Source: U.S. Centers for Disease Control and Prevention, 2019

Americans age 65 and older spent an average of \$768 on prescription drugs in 2018.

Source:
U.S. Bureau of Labor
Statistics, 2019

2. Your Age

Not surprisingly, health-care costs tend to rise with age. And even if your basic expenses don't change much, inflation will certainly impact the costs associated with them. So in your planning, it's wise to factor in a regular increase in health-care spending.

Average annual health-care costs, by age



Source: U.S. Bureau of Labor Statistics, 2019